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national farmers union

In Union Is Strength

National Farmers Union

Submission

to the

House of Commons Standing Committee on Finance

on the subject of

The Goods and Services Tax

presented

in

Ottawa, Ontario October 23, 1989

20th Anniversary 1969-1989

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INTRODUCTION:

We appreciate the opportunity to appear before your Committee to express our views on proposals for the introduction of a new federal Goods and Services Tax.

By way of introduction, for the benefit of Committee members who are not familiar with the NFU, we are a voluntary annual dues paying membership organization of farm families chartered by an Act of Parliament in 1970. We are non-partisan, non-sectarian and non-racial. Our purpose is to advance the economic and social well-being of farm families to help maintain our relevance within what is becoming an increasingly hostile environment for farm families in Canada.

ATTEMPTING TO INTERPRET THE SALES PITCH:

As with the debate over the Canada-U.S. Free Trade Agreement one year ago, Canadians are being subjected to a massive sales pitch over the real or imagined merits of the Goods and Services Tax proposal.

As with the FTA, we are again being led into a labyrinth of technical and regulatory entrapment which is predestined to complicate our lives.

As with the FTA, the GST technical paper sales pitch advances a number of assumptions and presents them as truths, but which in many instances are suspect to say the least. As a result, the technical paper creates a lack of credibility and mistrust among those it hopes to convince of its merits.

We are certain a number of instances have already been brought to your attention. We offer a few of our own.

For example, the GST technical paper states:

1. "There are also important economic reasons for the federal government to retain a consumption tax as one of its major fiscal instruments. First, diversifying the government's fiscal structure across a number of tax bases at low rates is the best safeguard against extensive efforts to avoid and evade tax. More importantly, to the extent that reliance is placed on consumption taxes to raise revenues, the greater is the incentive for taxpayers to save for and invest in the future. This greater saving will tend to shift the growth path of the Canadian economy upward." (Page 6)

Comment: The assumption is that the GST will safeguard against "extensive efforts to avoid and evade tax." We submit it will do no such thing. The black market exchange in and bartering of goods and services could be greater than ever. Smuggling may increase. The GST may encourage an underground tax revolt.

It is assumed the consumption tax will serve as an "incentive to save." The GST technical paper estimates the rate of inflation will increase by 2.25 per cent. Wood Gundy Inc.* predicts an increase of 3% in the inflation rate with a decline in employment of 75,000 rather than an increase of 35,000 as stated by the Department of Finance. Who are we to believe?

It is certain to be inflationary. Increased unemployment and inflation accompanied by a probable corresponding Bank of Canada increase in interest rates will lead to higher costs for essentials and a negative impact upon savings potential. The GST, after all, will in 1991, drain an additional $5.5 billion from consumers.

2. "Real personal disposable incomes of middle and upper income households will initially fall so that, in total, real disposable incomes are lower by about one per cent. Over time, however, sales tax reform will result in higher real purchasing power for all Canadians.

- First, the estimated initial impact on real purchasing power does not include savings from the effective elimination of federal sales taxation of business capital inputs. Over time, these savings will be passed forward to consumers in the form of lower prices. Competitive forces will speed the process by which consumers will realize these benefits.

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* Globe & Mail, Sept. 6, 1989

- Second, the improvements in productivity resulting from sales tax reform will, over time, lead to higher real incomes for Canadian households. This will be reflected in higher levels of consumer spending." (Pages 39-41)

Comment: A decline of one per cent in real personal disposable income of middle and upper income households does not point in the direction of savings.

It is assumed that the elimination of the F.S.T. will be passed forward to consumers in the form of lower prices. We seriously question this assumption unless the government intends to intervene to assure that it happens. The business community has given no such assurances. (Bread prices rose after domestic wheat prices of $7/bushel were removed and lowered.)

It is also assumed that "improvements in productivity" will over time lead to higher real incomes for Canadian households. This can only happen if all incomes rise beyond the effective rate of inflation, the possibility of which is being discouraged. The document warns of the need for restraint and the negative effect of "an unfavourable reaction." It points in the direction of income increases needing to lag behind the rate of inflation.

WINNERS AND LOSERS OF TAX REFORM:

The GST technical paper states the purpose of the GST is to provide a more reliable and greater tax revenue source to the federal treasury than does the current FST. By eliminating the concept of the current FST, the theory is advanced that Canadian firms will be able to operate on a larger, more efficient scale to capitalize from the Canada-U.S. Free Trade Agreement under which we are to have securer access to the U.S. market. ("Securer access," as Canadian Pork producers have learned to their considerable surprise, is an assumption and not a guarantee under the FTA.)

Once again, the winners will be separated from the losers.

The GST, as a companion reform to the FTA, is intended to create a level playing field to assist Canadian corporations in their export efforts. Under the GST program foreign buyers will be assured

of a better deal on Canadian processed and manufactured goods than Canadians. Canadian exporting firms are obviously intended to be winners.

The federal government will be a winner. It will collect about $24 billion in 1991 from the GST rather than the $18.5 billion it would have collected under the FST. All of it will be collected from Canadians even though $5.5 billion will be used to fund the sales tax credits and related programs.

For Canadian consumers the playing field will be less than level relative to U.S. consumers. Not only will we pay the 9% GST on domestically-produced goods but also on most imported goods. The GST will effectively represent a 9% tariff wall on imports. Canadian consumers will be losers.

FARMERS WILL BE LOSERS:

We believe that, as farmers, we will be losers under the proposed GST although farm input costs are presented as being zero-rated.

We submit the following reasons:

1. Under the proposed tax system, the farmer will be required to pay the tax up-front on all purchases even those where there can be no question of eligibility for rebate. This will mean more initial cash outlay. If such purchases involve funds acquired through operating lines of credit from lending institutions, added non-refundable interest costs will be involved which inevitably will contribute toward lower realized net income.

Taxing "exempt" farm inputs creates a climate of mistrust. The tax may be refundable in 1991 - but will it be refundable in 1992? The only logical reason we can think of why farmers would be programmed into a tax system of double compulsion - compelled to pay the tax and compelled to seek a refund - is that once the principle of paying the tax has been established, it is much simpler for the government to change the rules. There is currently a large number of farm-related items listed in the Excise Tax Act Schedule III to which the FST does

not apply. It is of no advantage to the farmer to have this changed.

The only way the government can be creditable in claiming that farm inputs indeed are tax exempt is to not charge the GST on inputs in the first place. An exemption card should be issued which would enable a business to record the farmer's exemption number on bills of sale for the benefit of the tax department. We recommend that this be done in preference to charging the GST on all inputs.

2. The right to refund of the GST on farm input costs will result in additional direct cost, inconvenience and/or loss of time to farmers. While no list of items has been prepared on which the GST will be refundable, we anticipate that some items a farmer may claim for GST refund may be challenged as not being essential for food production. We foresee a myriad of disputes, audits and challenges over the separation of taxes qualifying for refund. This will benefit accountants and lawyers to a much greater extent than farmers.

3. The vast majority of farmers file income taxes on an annual basis. This will mean the GST will be outstanding for a considerable length of time. We cannot foresee the majority of farmers filing for GST refunds on a monthly basis. Most are too involved in the direct labour needs of their operations to attend to accounting requirements on a day-to-day basis.

We note where sales exceed $500,000, quarterly returns will be required. In all of Canada in 1985, there were only 3,742 census farms (1.3%) that sold products valued at over $500,000.

We believe most farmers, given the choice of not paying the tax or paying the tax and being reimbursed with a 0.4 per cent administration fee to a maximum of $600, would opt to not pay the tax. The administration fee allowance will fall far short of the real additional cost many will face.

4. Many farm input costs are subject to separate provincial sales taxes. These rates of taxation vary greatly from province to province and are assessed against input costs inclusive of the GST. This form of taxation on taxation will additionally increase farm production costs. Even though the GST may be refundable, provincial

sales taxes are not. To the extent that provincial taxes range from 0% to 12% across Canada, farmers will bear disproportionate shares of this added cost burden created by the GST. A harmonized approach to the collection of the tax can only be achieved if the provinces are prevented from top-loading provincial tax calculations onto the GST.

5. Farmers are highly dependent on transportation. Costs of transportation services for various farm commodities will be affected. The GST will apply to domestic freight transportation services provided by any mode. Confusion is certain to result in the assessment of grain freight services and grain elevator charges under circumstances where grains and oilseeds may be processed for the domestic industrial market and the balance may go into the zero-rated market. Visibility at all levels of transportation input costs are necessary to assist farmers.

6. Landlord-tenant relationships will be affected. In many instances, land-lease agreements are based on crop shares rather than cash. Calculations of the GST will be less definite and precise.

7. We disagree with the concept of taxing quota transfers. There can be no net financial gain to the government from taxing a quota and having it offset by a tax credit. Administering this type of program will cost money and return nothing - unless, of course, the proposed arrangement is only intended to be of short duration.

TAXING FOOD:

Currently the government proposes that basic food items not be taxed. We support this decision and believe it would be an error to broaden the tax base by including food and reducing the effective rate of tax from 9% to say, 6%.

In our view, the principle of a consumption tax of this kind is wrong in the first instance. It would be more equitable to increase tax revenues through an ability-to-pay approach. There is, after all, a fixed amount of income available throughout the economy. Reducing the rate from 9% to 6% by including groceries would shift a dispro-

portionate share of cost on lower income persons whose expenditures on food would represent a larger percentage of their incomes than those in the upper income brackets.

An upper income person purchasing a $50,000 automobile would effect a tax saving of $1,500 at 6% versus 9%. He would need to purchase $25,000 annually in food purchases to incur a tax equivalent of $1,500.

CONCLUSION:

In summary, we look upon the GST proposal as regressive. We think it will be cumbersome to administer, inflationary and particularly burdensome to farmers who are presented as having special status under this proposal. We disagree that this is the case. Farmers will have increased cash flow problems and production costs. Farmers are large consumers of farm inputs and the burden of double compulsion thrust upon them by the GST represents an accounting nightmare.

It makes no sense to charge the tax on farm inputs only to have it refunded. It makes no sense to state the concept of issuing an exemption card to farmers was considered but rejected because it would be difficult to define who would be a farmer. At some level, this question will, in any event, need to be defined. The design of the GST as it applies to farmers is the cause of a great deal of mistrust about future government intentions.

It makes no sense to permit provinces to top-load provincial sales tax on the GST. In order to provide equality, tax top-loading should be prevented.

For these several reasons, we strongly recommend that additional government revenues be acquired through redesigning the tax system in such a way as to reflect ability to pay. It, too, would have visibility and be more equitable than the current GST proposal can ever hope to be.

All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION